



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
PIKE COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Pike County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$883,848 from the prior fiscal year, resulting in a cash surplus of \$7,554,042 as of June 30, 2001. Revenues increased by \$4,499,004 from the prior year and disbursements increased by \$6,956,716.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$5,150,000. Future collections of \$7,599,146 are needed over the next 18 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$6,726,064 as of June 30, 2001. Future principal and interest payments of \$8,700,976 are needed to meet these obligations.

Report Comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court
- The County Should Include All Funds In The County's Financial Statements And County's Budget
- Official Bonds Should Be Recorded In The County Clerk's Office
- The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Pike County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Pike County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Pike County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky which is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Pike County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2002, on our consideration of Pike County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Pike County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court
- The County Should Include All Funds In The County's Financial Statements And County's Budget
- Official Bonds Should Be Recorded In The County Clerk's Office
- The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 13, 2002

PIKE COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Karen F. Gibson	County Judge/Executive
Lyle Blackburn	Magistrate
J. Vernon Johnson	Magistrate
James Rodney Keene	Magistrate
Foster Thacker	Magistrate
Lloyd Hilman Dotson	Magistrate
Stirl E. Harris	Magistrate

Other Elected Officials:

Howard Keith Hall	County Attorney
Rodney Scott	Jailer
Lillian P. Elliott	County Clerk
W. David Deskins	Circuit Court Clerk
Charles Keese	Sheriff
Lonnie Osborne	Property Valuation Administrator
Charles Morris	Coroner

Appointed Personnel:

Johnda B. Billiter	County Treasurer
Randal Good	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

PIKE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 3,131,074	
Accounts Receivable (Note 4)	190,512	
Road and Bridge Fund:		
Cash	358,812	
Jail Fund:		
Cash	76,168	
Local Government Economic Assistance Fund:		
Cash	1,213,419	
Forestry Fund:		
Cash	3,618	
Maintenance Garage Fund:		
Cash	20,000	
Courthouse Building Commission:		
Cash	35,238	
Payroll Revolving Account - Cash	9,271	\$ 5,038,112

Special Revenue Fund Type

Federal Grants Fund:

Cash	\$ 0	
Solid Waste Fund:		
Cash	390,873	
Fords Branch Landfill Closing Fund:		
Cash	1,180,986	
Local Government Economic Development Fund:		
Cash	71,300	
Capital Lease Acquisition Fund:		
Cash	186,846	1,830,005

Debt Service Fund Type

Public Properties Corporation Fund:

Cash	\$ 13,458	
Investments	465,276	478,734

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Assets (Continued)

Component Unit

Pike County Interlocal 911 Board:

Cash	\$	406,974
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Other Resources

General Fund Type

Local Government Economic Assistance Fund:

Amounts to be Provided in Future Years for Capital Lease Principal Obligations - Courthouse Renovations (Note 7A)	\$ 3,918,712	
----------------------------------------------------------------------------------------------------------------------	--------------	--

Amounts to be Provided in Future Years for Capital Lease Principal Obligations - Courthouse Renovations and Furniture (Note 7B)	472,841	
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Road and Bridge Fund:

Amounts to be Provided in Future Years for Capital Lease Principal Obligations - Road Equipment (Note 7F)	<u>1,028,500</u>	5,420,053
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Special Revenue Fund Type

Solid Waste Fund:

Amounts to be Provided in Future Years for Capital Lease Principal Obligations - Equipment (Note 7C)	\$ 14,513	
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Amounts to be Provided in Future Years for Capital Lease Principal Obligations - Solid Waste Vehicles and Equipment (Note 7D)	624,000	
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Amounts to be Provided in Future Years for Capital Lease Principal Obligations - Road Equipment and Vehicles (Note 7E)	<u>667,498</u>	1,306,011
---------------------------------------------------------------------------------------------------------------------------	----------------	-----------

Debt Service Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Bond Principal Payments (Note 8)	<u>4,671,266</u>	
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Total Assets and Other Resources	<u><u>\$ 19,151,155</u></u>
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The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

Local Government Economic Assistance Fund:

Capital Lease Principal Obligation - Courthouse Renovations (Note 7A)	\$	3,918,712	
Capital Lease Principal Obligation - Courthouse Renovations and Furniture (Note 7B)		472,841	

Road and Bridge Fund:

Capital Lease Principal Obligation - Road Equipment (Note 7F)		1,028,500	
Payroll Account		9,271	
Retirement Account-Cash Deficit		35	\$ 5,429,359

Special Revenue Fund Type

Solid Waste Fund:

Capital Lease Principal Obligation - Equipment (Note 7C)	\$	14,513	
Capital Lease Principal Obligation - Solid Waste Vehicles and Equipment (Note 7D)		624,000	
Capital Lease Principal Obligation - Road Equipment and Vehicles (Note 7E)		667,498	1,306,011

Debt Service Fund Type

Public Properties Corporation Fund:

1997 Revenue Refunding Bonds Principal (Note 8)			5,150,000
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Fund Balances

Reserved:

General Fund Type

Local Government Economic Assistance Fund	\$	1,213,419	
Forestry Fund		3,618	
Maintenance Garage Fund		20,000	
Courthouse Building Commission Fund		35,238	1,272,275

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances (Continued)

Reserved (Continued)

Special Revenue Fund Type:

Federal Grants Fund	\$	0	
Solid Waste Fund		390,873	
Fords Branch Landfill Closing Fund		1,180,986	
Local Government Economic Development Fund		71,300	
Capital Lease Acquisition Fund		<u>186,846</u>	\$ 1,830,005

Component Unit:

Pike County Interlocal 911 Board Fund	406,974
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Unreserved:

General Fund Type

General Fund	\$ 3,321,551	
Road and Bridge Fund	358,812	
Jail Fund	<u>76,168</u>	<u>3,756,531</u>
Total Liabilities and Fund Balances		<u>\$ 19,151,155</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

PIKE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 24,814,292	\$ 9,970,723	\$ 2,208,749	\$ 1,132,021
Other Financing Sources:				
Transfers In	4,645,212	308,793	2,423,091	490,719
Kentucky Advance Revenue Program	10,000,000	10,000,000		
Lease-Purchase Proceeds	1,028,500			
Total Cash Receipts	\$ 40,488,004	\$ 20,279,516	\$ 4,631,840	\$ 1,622,740
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 24,335,766	\$ 10,135,394	\$ 4,072,936	\$ 1,652,164
Schedule of Unbudgeted Expenditures	290,890			
Other Financing Uses:				
Transfers Out	4,645,212	584,969	490,658	
Capital Lease Expenditures:				
Equipment	845,098			
Capital Lease Payments	778,477	223,859	132,901	3,452
Bonds:				
Principal Paid	185,000			
Interest Paid	290,998			
Kentucky Advance Revenue Program Repaid	10,000,000	10,000,000		
Pike County Interlocal 911 Board Expenditures	411			
Total Cash Disbursements	\$ 41,371,852	\$ 20,944,222	\$ 4,696,495	\$ 1,655,616
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (883,848)	\$ (664,706)	\$ (64,655)	\$ (32,876)
Cash Balance - July 1, 2000 *	8,437,890	3,795,780	423,467	109,044
Cash Balance - June 30, 2001 *	\$ 7,554,042	\$ 3,131,074	\$ 358,812	\$ 76,168

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Types				Special Revenue Fund Types	
Local Government Economic Assistance Fund	Forestry Fund	Maintenance Garage Fund	Courthouse Building Commission Fund	Federal Grants Fund	Solid Waste Fund
\$ 5,754,456	\$ 6,573	\$ 47,985	\$ 1,331	\$ 663,500	\$ 4,160,818
		1,083,659			
<u>\$ 5,754,456</u>	<u>\$ 6,573</u>	<u>\$ 1,131,644</u>	<u>\$ 1,331</u>	<u>\$ 663,500</u>	<u>\$ 4,160,818</u>
\$ 2,964,085	\$ 8,208	\$ 1,115,705	\$	\$ 663,500	\$ 3,723,774
2,537,792					723,000
197,317					220,948
<u>\$ 5,699,194</u>	<u>\$ 8,208</u>	<u>\$ 1,115,705</u>	<u>\$</u>	<u>\$ 663,500</u>	<u>\$ 4,667,722</u>
\$ 55,262	\$ (1,635)	\$ 15,939	\$ 1,331	\$ 0	\$ (506,904)
1,158,157	5,253	4,061	33,907		897,777
<u>\$ 1,213,419</u>	<u>\$ 3,618</u>	<u>\$ 20,000</u>	<u>\$ 35,238</u>	<u>\$ 0</u>	<u>\$ 390,873</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	<u>Special Revenue Fund Types</u>		
	Ford's Branch Landfill Closing Fund	Local Government Economic Development Fund	Capital Lease Acquisition Fund
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 54,563	\$ 136,352	\$ 3,444
Other Financing Sources:			
Transfers In	130,000		
Kentucky Advance Revenue Program			
Lease-Purchase Proceeds			1,028,500
Total Cash Receipts	<u>\$ 184,563</u>	<u>\$ 136,352</u>	<u>\$ 1,031,944</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$
Schedule of Unbudgeted Expenditures		290,890	
Other Financing Uses:			
Transfers Out			
Capital Lease Expenditures:			
Equipment			845,098
Capital Lease Payments			
Bonds:			
Principal Paid			
Interest Paid			
Kentucky Advance Revenue Program			
Repaid			
Pike County Interlocal 911 Board			
Expenditures			
Total Cash Disbursements	<u>\$</u>	<u>\$ 290,890</u>	<u>\$ 845,098</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 184,563	\$ (154,538)	\$ 186,846
Cash Balance - July 1, 2000 *	<u>996,423</u>	<u>225,838</u>	
Cash Balance - June 30, 2001 *	<u><u>\$ 1,180,986</u></u>	<u><u>\$ 71,300</u></u>	<u><u>\$ 186,846</u></u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

Debt Service Fund Types	Component Unit
Public Properties Corporation Fund	Pike County Interlocal 911 Board Fund
\$ 266,970	\$ 406,807
208,950	
<u>\$ 475,920</u>	<u>\$ 406,807</u>
\$	\$
	308,793
185,000	
290,998	
	411
<u>\$ 475,998</u>	<u>\$ 309,204</u>
\$ (78)	\$ 97,603
<u>478,812</u>	<u>309,371</u>
<u>\$ 478,734</u>	<u>\$ 406,974</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Pike County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation Fund and the Pike County Interlocal Board as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

The Pike County Interlocal 911 Board (the Board) is a legally separate entity established to provide emergency response services to Pike County. The Board's members are appointed independently of the Pike County Fiscal Court, and the Board's governing body is substantially different from that of the Fiscal Court. However, the Fiscal Court is financially accountable for the Board because the Fiscal Court must approve rate changes established by the Board. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

Additional - Pike County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Pike County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Pike County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Pike County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Forestry Fund, Maintenance Garage Fund, and the Courthouse Building Commission Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Federal Grants Fund, Solid Waste Fund, Ford's Branch Landfill Closing Fund, Local Government Economic Development Fund and the Capital Lease Acquisition Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Pike County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Debt Service Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually, and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pike County Fiscal Court: Mountain Water District, Pike County Golf Management Corporation, Pike County Housing Authority, and the Pike County Extension Board.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Jointly Governed Organization

Pike County Fiscal Court, in conjunction with the City of Pikeville, has created the Pikeville - Pike County Airport Board (the Board). The Board is composed of six appointed members, three appointed from each of the two participating governments. The fiscal court appropriated \$202,122 to the Board for operating expenses. The Board reimburses the fiscal court for a portion of these operating expenses. The fiscal court had not yet received, but expects reimbursement from the Board in the amount of \$62,479 at fiscal year ended June 30, 2001. We have disclosed this expected reimbursement in Note 4 and as a receivable on our Statement Of Assets, Liabilities, and Fund Balances Arising From Cash Transactions.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

PIKE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 4. Receivables

The Pike County Fiscal Court furnishes payroll processing and accounts payable services to the Pike County Golf Management Corporation, the Pike County Interlocal 911 Board and the Pikeville-Pike County Airport Board. The Fiscal Court is reimbursed from these organizations. As of June 30, 2001, the total amount due to the Fiscal Court is as follows:

Pike County Golf Management Corporation	\$	70,157
Pike County Interlocal 911 Board		57,876
Pikeville-Pike County Airport Board		<u>62,479</u>
Total Reimbursement due to the Pike County Fiscal Court for Payroll, Accounts Payable, and Lease Payments	\$	<u>190,512</u>

Note 5. Buskirk McCarr Flood Control Project

The county entered into an agreement with the Department of Army for a flood control project within the county. The agreement requires the county to provide five percent of the total project costs. For the non-federal share of the project, the county entered into an agreement with the Commonwealth of Kentucky to provide 95 percent of the contribution. The Buskirk McCarr Flood Control Project balance at July 1, 2000 was \$7,236, including \$50 of interest income. The Commonwealth of Kentucky contributed \$133,000 to the project and the Department for Local Government contributed \$7,000. Interest income totaled \$3,636 for fiscal year ending June 30, 2001. Project costs paid to the Army totaled \$45,000. In accordance with the project agreement \$3,138 was paid to the Commonwealth of Kentucky, and \$165 was paid to the Pike County Fiscal Court for interest income. In addition, bank charges of \$284 were paid from the account. The project account balance at June 30, 2001, totaled \$102,285.

Note 6. Lease Purchase Agreements

- A. On May 17, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for computer equipment. The principal amount of the lease was \$205,000. The agreement requires variable monthly payments for 36 months to be paid in full May 20, 2002. The principal balance of the agreement was \$205,000 as of June 30, 2001.
- B. On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$315,625. The agreement requires variable monthly payments for 60 months to be paid in full April 20, 2005. The principal balance of the agreement was \$248,010 as of June 30, 2001.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Capital Lease Agreements

- A. On June 17, 1991, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for courthouse renovations. The principal amount of the lease was \$5,000,000. The agreement requires variable monthly payments for 25 years to be paid in full July 1, 2016. The principal balance of the agreement was \$3,918,712 as of June 30, 2001. The county refinanced the lease agreement for a lower interest rate in the fiscal year 1999-2000. Lease payments remaining are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2002	\$ 173,591	\$ 166,890
2003	165,844	177,095
2004	157,623	187,924
2005	148,899	199,416
2006	139,641	211,610
Thereafter	<u>743,759</u>	<u>2,975,777</u>
Totals	<u>\$ 1,529,357</u>	<u>\$ 3,918,712</u>

- B. On June 29, 1993, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for additional courthouse renovations and furniture. The principal amount of the lease was \$600,000. The agreement requires variable monthly payments for 25 years to be paid in full March 1, 2018. The principal balance of the agreement was \$472,841 as of June 30, 2001. The county refinanced the lease agreement for a lower interest rate in the fiscal year 1999-2000. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2002	\$ 20,958	\$ 19,506
2003	20,058	20,398
2004	19,118	21,330
2005	18,135	22,306
2006	17,106	23,326
Thereafter	<u>105,612</u>	<u>365,975</u>
Totals	<u>\$ 200,987</u>	<u>\$ 472,841</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Capital Lease Agreements (Continued)

- C. On December 20, 1996, Pike County entered into a lease agreement with The Fifth Third Bank of Northern Kentucky for vehicles and equipment. The principal amount of the lease was \$775,000. The agreement requires monthly payments of \$14,572 for 60 months to be paid in full November 1, 2001. Pike County made five additional lease payments during fiscal year ended June 30, 2001. The principal balance of the agreement was \$14,513 as of June 30, 2001. Lease payments remaining are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2002	\$ 59	\$ 14,513
Totals	<u>\$ 59</u>	<u>\$ 14,513</u>

- D. On December 18, 1998, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for solid waste vehicles and equipment. The principal amount of the lease was \$1,000,000. The agreement requires variable monthly payments for 5 years to be paid in full February 1, 2004. The principal balance of the agreement was \$624,000 as of June 30, 2001. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2002	\$ 26,640	\$ 200,000
2003	16,621	208,000
2004	6,208	216,000
Totals	<u>\$ 49,469</u>	<u>\$ 624,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Capital Lease Agreements (Continued)

- E. On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment and vehicles. The principal amount of the lease was \$925,000. The agreement requires variable monthly payments for 5 years to be paid in full December 20, 2004. The principal balance of the agreement was \$667,498 as of June 30, 2001. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2002	\$ 30,835	\$ 180,527
2003	21,128	188,821
2004	10,975	197,495
2005	<u>1,535</u>	<u>100,655</u>
Totals	<u>\$ 64,473</u>	<u>\$ 667,498</u>

- F. On November 20, 2000, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment. The principal amount of the lease was \$1,028,500. The agreement requires variable monthly payments for 5 years to be paid in full March 20, 2006. The principal balance of the agreement was \$1,028,500 as of June 30, 2001. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2002	\$ 45,255	\$ 190,000
2003	36,059	197,000
2004	26,509	205,000
2005	16,557	214,000
2006	<u>6,187</u>	<u>222,500</u>
Totals	<u>\$ 130,567</u>	<u>\$ 1,028,500</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 8. Long-Term Debt

In February 1997, the Pike County Public Properties Corporation, a component unit of the Pike County Fiscal Court, issued \$5,875,000 in refunding revenue bonds to refinance the Hall of Justice. The bonds require semiannual interest payments due August 20 and February 20 and one principal payment each year due August 20. The bonds will mature February 20, 2019. As of June 30, 2001, the principal amount outstanding was \$5,150,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2002	\$ 281,971	\$ 195,000
2003	272,294	205,000
2004	261,976	215,000
2005	250,974	225,000
2006	239,241	235,000
Thereafter	<u>1,621,424</u>	<u>4,075,000</u>
Totals	<u>\$ 2,927,880</u>	<u>\$ 5,150,000</u>

Note 9. Landfill Closure and Post-Closure Costs

KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed, written estimate, in current dollars of the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of post-closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of June 30, 2001, 31 percent of phase three of the landfill capacity had been used.

Pike County must comply with established state and federal landfill closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$2,500,000 and estimated post closure care costs total \$10,000 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statements are prepared on a modified cash basis of accounting, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The fiscal court deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2001, the Ford's Branch Landfill Closing Fund had a balance of \$1,180,986.

The Ford's Branch Landfill is scheduled to close in the year 2022. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Fund Account to pay estimated closure and post-closure costs.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 10. Insurance

For the fiscal year ended June 30, 2001, Pike County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Pike County Jail Canteen Fund had income of \$192,821, less disbursements of \$162,016, leaving net income of \$30,805 as of June 30, 2001. All profits were for the benefit and/or recreation of inmates.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

PIKE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 40,510,252	\$ 9,970,723	\$ (30,539,529)
Road and Bridge Fund	4,165,181	2,208,749	(1,956,432)
Jail Fund	1,552,725	1,132,021	(420,704)
Local Government Economic Assistance Fund	6,867,158	5,754,456	(1,112,702)
Forestry Fund	7,000	6,573	(427)
Maintenance Garage Fund	1,141,534	47,985	(1,093,549)
Courthouse Building Commission Fund		1,331	1,331
<u>Special Revenue Fund Type</u>			
Federal Grant Fund	1,680,000	663,500	(1,016,500)
Solid Waste Fund	3,273,940	4,160,818	886,878
Fords Branch Landfill Closing Account Fund		54,563	54,563
Local Government Economic Development Fund		136,352	136,352
Capital Lease Acquisition Fund		3,444	3,444
Totals	<u>\$ 59,197,790</u>	<u>\$ 24,140,515</u>	<u>\$ (35,057,275)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 59,197,790
Add: Budgeted Prior Year Surplus			6,393,540
Less: Other Financing Uses			<u>(10,987,427)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 54,603,903</u>

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SCHEDULE OF OPERATING REVENUE

PIKE COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	Component Unit
Taxes	\$ 3,611,973	\$ 3,611,973	\$	\$	\$
In Lieu Tax Payments	12,535	12,535			
Excess Fees	540,690	540,690			
Licenses and Permits	193,304	193,304			
Intergovernmental Revenues	17,184,363	13,819,673	3,364,690		
Charges for Services	1,920,152	123,462	1,409,418		387,272
Miscellaneous Revenues	590,128	197,982	152,656	239,490	
Interest Earned	761,147	622,219	91,913	27,480	19,535
Total Operating Revenue	<u>\$ 24,814,292</u>	<u>\$ 19,121,838</u>	<u>\$ 5,018,677</u>	<u>\$ 266,970</u>	<u>\$ 406,807</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

PIKE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 6,680,987	\$ 4,919,544	\$ 1,761,443
Protection to Persons and Property	2,425,687	2,354,989	70,698
General Health and Sanitation	13,260,984	2,702,623	10,558,361
Social Services	907,083	853,637	53,446
Recreation and Culture	4,723,336	734,224	3,989,112
Roads	3,658,250	3,271,062	387,188
Airports	181,091	179,191	1,900
Other Transportation Facilities and Services	984,584	967,412	17,172
Debt Service	429,764	586,253	(156,489)
Capital Projects	13,330,080	1,138,567	12,191,513
Administration	2,391,288	2,240,990	150,298
Total Operating Budget - General Fund Type	\$ 48,973,134	\$ 19,948,492	\$ 29,024,642
Other Financing Uses:			
Transfers to Public Property			
Corporation Bond Fund	208,950	208,950	
Capital Lease Principal-			
Road Equipment and Vehicles	136,352	136,352	
Vehicles and Equipment	57,115	57,115	
Solid Waste Equipment and Vehicles	188,160	188,160	
Courthouse Renovations	157,275	157,275	
Courthouse Renovations and Furniture	18,626	18,626	
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal	10,000,000	10,000,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 59,739,612</u>	<u>\$ 30,714,970</u>	<u>\$ 29,024,642</u>

PIKE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Health and Sanitation	\$ 3,088,112	\$ 2,864,566	\$ 223,546
Capital Projects	1,680,000	663,500	1,016,500
Administration	862,657	859,208	3,449
Total Operating Budget - Special Revenue Fund Type	\$ 5,630,769	\$ 4,387,274	\$ 1,243,495
Other Financing Uses:			
Capital Lease Principal-			
Road Vehicles and Equipment	36,246	36,246	
Solid Waste Equipment and Vehicles	3,840	3,840	
Vehicles and Equipment	180,863	180,863	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 5,851,718	\$ 4,608,223	\$ 1,243,495

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SCHEDULE OF UNBUDGETED EXPENDITURES

PIKE COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Local Government Economic Development Fund</u>
Capital Projects -	
Construction Costs	\$ 283,561
Administrative Fees	<u>7,329</u>
Totals	<u>\$ 290,890</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Members of the Pike County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Pike County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pike County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2001-1 through 2001-5.

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court
- The County Should Include All Funds In The County's Financial Statements And County's Budget
- Official Bonds Should Be Recorded In The County Clerk's Office
- The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pike County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 13, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Karen F. Gibson, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pike County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Pike County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pike County's management. Our responsibility is to express an opinion on Pike County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pike County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pike County's compliance with those requirements.

In our opinion, Pike County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report on Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Pike County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pike County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 13, 2002

FINDINGS AND QUESTIONED COSTS

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Pike County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Five instances of noncompliance material to the financial statements of Pike County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pike County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pike County reported in Part C of this schedule.
7. The programs tested as major programs were: Abandoned Mine Land Reclamation Program CFDA #15.252 and Community Development Block Grant CFDA #14.219.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pike County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES

Reference Number 2001-1

The County Should Have A Written Agreement To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of June 30, 2001, the county had bank deposits of \$1,904,224; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,787,188. The county was materially collateralized at June 30, 2001; however, there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral. We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive Karen Gibson's Response:

County Treasurer is getting sample copy of pledge of securities form from the auditors.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2001
(Continued)

NONCOMPLIANCES (Continued)

Reference Number 2001-2

The County Treasurer Should Submit A Monthly Statement To The County Judge/Executive And The Fiscal Court

The County Treasurer did not submit a monthly statement to the County Judge/Executive or the Fiscal Court. KRS 68.360 states, "...The county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation." We recommend the County Treasurer comply with KRS 68.360 by submitting monthly reports to the County Judge/Executive and the Fiscal Court detailing cash balances at the beginning of the month, receipts collected, all claims paid and ending cash balances.

County Judge/Executive Karen Gibson's Response:

I would appreciate at least the quarterly statements timely.

Reference Number 2001-3

The County Should Include All Funds In The County's Financial Statements And County's Budget

The county did not include the financial transactions of the Local Government Economic Development Fund as part of the budget or the quarterly financial statements. This resulted in the county presenting an incorrect budget and an incorrect quarterly financial statement. The Local Government Economic Development Fund earned \$136,352 in interest and rental income, and expended \$290,890 during the fiscal year ended June 30, 2001. We have adjusted the county's financial statement to include receipts and disbursements resulting from these transactions. The State Local Finance Officer under the authority of KRS 68.210 requires that all revenue and expenditures be accounted for in accordance with the Uniform System of Accounts. According to the Uniform System of Accounts, the county budget should provide for all the funds to be expended by the county from current revenue for each fiscal year. Therefore, we recommend that the Local Government Economic Development Fund be included in the annual budget and quarterly financial statement.

County Judge/Executive Karen Gibson's Response:

1st quarter 2001/2002 includes it. We included it as soon as the audit for year 2000 brought it to our attention.

PIKE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Fiscal Year Ended June 30, 2001
 (Continued)

NONCOMPLIANCES (Continued)

Reference Number 2001-4

Official Bonds Should Be Recorded In The County Clerk's Office

The County Judge/Executive's bond, County Treasurer's bond, County Jailer's bond, and County Coroner's bond were not recorded in the County Clerk's office as required by statute. Therefore, we recommend that the fiscal court take appropriate action to ensure bonds are recorded in the County Clerk's office.

County Judge/Executive Karen Gibson's Response:

All bonds were renewed timely and the County Treasurer has the renewals. The original contract is on file in the County Clerk's office. The renewals may not need filed but we will file if necessary.

Reference Number 2001-5

The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements

The Fiscal Court currently provides payroll-processing services to the Pikeville/Pike County Airport Board (the Board). KRS 183.132 allows the fiscal court access to the accounting records and financial reports of the Board at all times. In addition, KRS 183.132 requires the Board to submit a detailed financial report to the fiscal court annually. The Airport Board does not submit an annual financial statement to the fiscal court, and the fiscal court does not request a detailed financial report from the Airport Board. Therefore, we recommend the Fiscal Court request quarterly financial statements from the Airport Board and examine the financial statements to determine the Pikeville/Pike County Airport Board's ability to reimburse the Fiscal Court for payroll-processing. We further recommend the Fiscal Court require the Board to have annual audits conducted.

County Judge/Executive Karen Gibson's Response:

We have notified them on several occasions of the need to give to us financial statements. They have given excuses that they are trying to get an audit. We feel they are uncooperative in giving us the financial statements.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Fiscal Court Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The County Should Include All Funds In The County's Financial Statements And County's Budget
- The Fiscal Court Should Comply With KRS 183.132 And Require The Pikeville/Pike County Airport Board To Submit Financial Statements

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government: Community Development Block Grants-Mossy Bottom Project (CFDA #14.219)	98-046	\$ 663,500
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources: Abandoned Mine Land Reclamation Programs-Feds Creek/Mouthcard Water Supply (CFDA #15.252)	12-34-600-FMAO- E415-04	1,656,042
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: Juvenile Accountability Incentive Block Grant (CFDA #16.523)	Not Applicable	18,334
<u>U.S. Corps of Engineers</u>		
Hatfield McCoy Home Project (CFDA #12.XXX) (Identifying #4728 FP-UP 162)	Not Applicable	160,000
<u>U.S. Department of Commerce</u>		
Passed-Through National Oceanic and Atmospheric Administration-Pride Community Grants (CFDA #11.469)	CF99-08 through CF99-14	<u>67,471</u>
Total Cash Expenditures of Federal Awards		<u>\$ 2,565,347</u>

PIKE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - The federal expenditures for Abandoned Mine Land Reclamation Project include grants to the subrecipient as follows:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-through Grant Amount</u>
Mountain Water District	15.252	\$1,656,042

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PIKE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

Appendix A

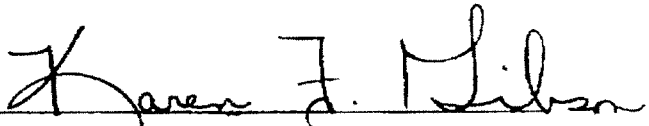
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

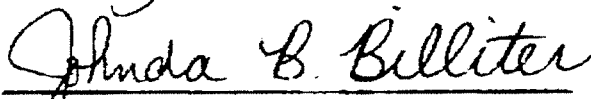
PIKE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Pike County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer